Contribution of Pension and Retirement Savings to Retirement Income Security: *More Than Meets the Eye*

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Angst about the U.S. retirement system has been growing in recent years, with most concerns focusing on the sources and sufficiency of retirees' income. The major components of the retirement system are Social Security, employer-sponsored pensions and retirement savings plans, and individual savings. The government also sponsors a variety of welfare plans for those with relatively low incomes, although the welfare benefits generally fall far short of what most people would consider necessary for a comfortable retirement. In addition to income supports, the retirement system provides health insurance under Medicare and means-tested Medicaid benefits.

One set of concerns focuses on Social Security. Since the mid-1980s, trustees' annual assessments have consistently pronounced the system insufficiently funded to pay benefits under current law for the baby boom generation. Although some groups believe we should trim future Social Security benefits to keep the system afloat for future workers (Bipartisan Policy Center [2010]; National Commission [2010]), others make a case for expanding benefits to cover a larger share of retirement income for beneficiaries. The latter generally contend that the current system does not replace sufficient preretirement income to meet retirees' needs and that alternative sources of income are unreliable or skewed toward higher-income workers and retirees (Lind [2013]; Rhee [2013]).

The perspective that other income sources are insufficient largely derives from survey evidence that supposedly measures retirees' various sources of income. For several decades now, the Social Security Administration has published a biennial report that focuses on the non-institutionalized U.S. population 55 and older. A segment of the report focuses more narrowly on people ages 65 and older because most of them are retired and receive some pension income or draw on retirement savings.

Exhibit 1 shows income sources for the population 65 and older and the percentage of income provided by each source from 1976 through 2010, taken from several periodic Social Security publications. The results suggest that Social Security is by far the most prevalent and most important aggregate source of income for the elderly. Since the early 1990s, income from personal assets and employer-sponsored pensions has played a diminishing role as older Americans and the elderly have become more dependent on wage and salary income.

Although Exhibit 1 gives a sense of the aggregate sources of retiree income, it does not suggest the distribution of income across the population. According to the Social Security Administration's estimates, in 2010,

EXHIBIT 1

Percentage of People Ages 65 and Older Receiving Income from Specified Sources and Percentage of Aggregate Income from Each Source, 1976–2010

Year	Social Security	Assets	Pensions	Earnings	Public Assistance
Percentage receiving income by source					
1976	89	56	31	25	11
1980	90	66	34	23	10
1984	91	68	38	21	9
1988	92	68	42	22	7
1992	92	67	45	20	7
1996	91	63	41	21	6
2000	90	59	41	22	5
2004	89	55	41	24	4
2008	87	54	41	26	4
2010	89	52	40	26	4
Percentage of aggregate income from each source					
1976	39	18	16	23	2
1980	39	22	15	19	1
1984	38	28	15	16	1
1988	38	25	18	17	1
1992	40	21	20	17	1
1996	40	18	18	20	1
2000	38	18	18	23	1
2004	39	13	20	26	1
2008	37	13	19	30	1
2010	37	11	19	30	1

Source: Data for 1976 through 2000 are from Hungerford et al. [2001/2002]. Data for 2004 are from Fisher and Pascua [2006]; data for 2008 are from Fisher and Trenkamp [2010]; data for 2010 are from Trenkamp [2012].

nearly one-quarter of family units with a member older than 65 relied solely on Social Security for income and 43% received 80% or more of their income from the program. On average, families with at least one member 65 or older received two-thirds of their income from Social Security, and those with the lowest incomes were most dependent on the program. In 2010, Social Security provided 84% of income to those in the bottom 20% of the income distribution, 83% of income to those in the next 20%, and 66% of income to those in the middle third (Trenkamp [2012]).

Using the same underlying data as in Exhibit 1, the Social Security Administration publishes a fact sheet on its website summarizing the relative importance of its benefits to the elderly (Social Security Administration [2013]). Other prominent players in discussions about retirement and Social Security policies often rely on the Social Security analysis of the Current Population Survey (CPS) or develop their own analysis off of the CPS.

The Center on Budget and Policy Priorities [2012], for example, used Social Security's 2010 report on income sources of the elderly in its 2012 report claiming that Social Security provides the majority of income for 65% of the elderly and more than 90% of income for 36% of them. These numbers differ from those on the Social Security website because the center treats each family member 65 or older as an individual observation, whereas Social Security treats married couples as one unit.

The National Academy of Social Insurance [2013] summarizes the data similarly to the Center on Budget and Policy Priorities: "About nine in 10 Americans aged 65 and older receive Social Security. For nearly two out of three of those beneficiaries (65%), Social Security was more than half their total income, and for one in three (36%), it is all or nearly all of their income." Caldera [2012], writing for AARP, tallied the CPS herself to show that 13.7% of older Americans live on Social Security alone, 9.9% rely on Social Security for 90% to 99.9% of their income, and 25.5% receive between 50% and 89.9% of their income from the program. Many other interest groups offer similar renditions of this theme.

The dominance of Social Security as the primary income source for the elderly is often used as the basis for arguing that program benefits should be further enhanced. Virginia Reno, the vice president for income security at the National Academy of Social Insurance, recently argued for more generous Social Security benefits before the Social Security Subcommittee of the House Ways and Means Committee, and she used the Social Security Administration's 2008 analysis to support her testimony (Reno [2010]).

In testimony before the Senate Committee on Health, Education, Labor and Pensions, Professor Eric Kingson [2011] of Syracuse University, who is also co-director of the interest group Social Security Works, used the same data to support his claim that the overwhelming majority of retirees obtain most of their income from Social Security. He argued that 6 out of 10 private-sector workers have no pension other than Social Security. Kingson used the evidence of the elderly's overwhelming dependence on Social Security benefits to oppose the use of an alternative consumer price index to calculate benefits.

Michael Lind, a policy director at the New America Foundation, and three colleagues cite data from Social Security for 2010 to claim that the elderly receive only 18% of their income from traditional pensions and defined-contribution plans and that among the middle 20% of the income distribution, fewer than half of retirees receive pension income from either defined-benefit or defined-contribution plans. This evidence forms the basis of their argument for scrapping current tax preferences for retirement savings, which would dramatically curtail employer-sponsored retirement plans and individual retirement accounts (IRAs), and then financing a new tier of Social Security benefits with the resulting tax revenues (Lind et al. [2013]).

BENCHMARKING CPS RETIREMENT INCOME MEASUREMENT

To develop its estimates of the sources and amounts of retiree income, the Social Security Administration uses data from the Current Population Survey, and many researchers use the CPS data to study the income of U.S. residents in a wide variety of analyses. To develop the CPS, the Census Bureau surveys a representative sample of U.S. households each month, which serves as the basis for monthly estimates of the civilian labor force, employment levels, and unemployment rates by the Bureau of Labor Statistics. Each March, the Census Bureau also administers a special "Annual Social and Economic Supplement," which gathers detailed information on income sources, income levels, and labor force activities over the prior year for all sample household members 15 or older. The March 2011 survey included approximately 57,000 households, and the supplement gathered income data for 2010. Machine-readable versions of the responses are available to government analysts and to outside researchers as well. The survey is used to analyze many characteristics of the U.S. non-institutionalized population and their activities, and the results over time enable analysts and policymakers to understand major economic and social trends.

It is well known that surveys are susceptible to response errors arising from a variety of causes. Sometimes respondents' answers reflect denial or wishful thinking about the subject. In surveys about weight and height, for example, people tend to underestimate the first and overestimate the second. It is not clear whether they are trying to categorize themselves into some perceived "socially acceptable" range of heights and weights, or they simply wish they were taller and thinner. In the CPS March Supplement, however, erroneous income information is likely due to factors other than wishful thinking. People are asked in March to provide information on income sources and amounts over the previous year, so some might not remember these amounts or might miscalculate the annual totals of weekly or monthly payments. In a household survey like the CPS, one person may be providing information about other household members, thus complicating matters further.

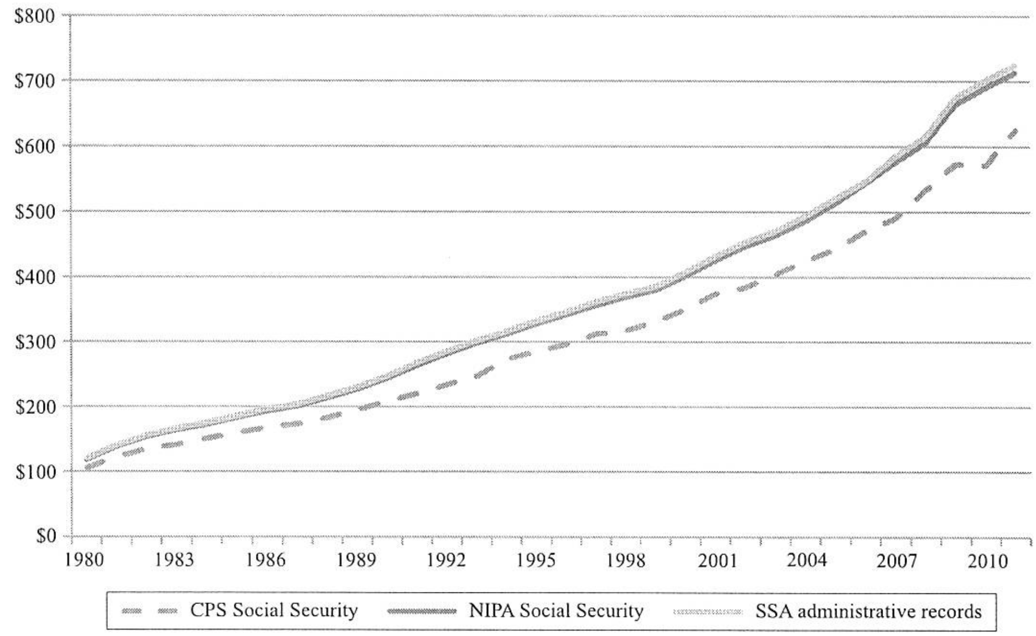
To gain a sense of how accurately the CPS measures retirement income, we benchmarked it against other data sources that may be more reliable. Exhibit 2 compares aggregate Social Security income in annual March CPS income supplements from 1980 to 2010 with data compiled by the Bureau of Economic Analysis for the national income and product accounts (NIPA) and from the Social Security Administration. Since 1980, the amount of Social Security income captured in the CPS has averaged around 85% of the benefit amounts paid out by the Social Security Administration, and the difference has never varied by more than three percentage points.

Some of the differences among the three data sources shown in Exhibit 2 might reflect the CPS focus on people living in U.S. households, which thus misses institutionalized beneficiaries and those living outside the United States. These two groups might account for 4% or 5% of total benefits, so the survey appears to have done a fairly consistent job of capturing roughly 90% of benefits paid by Social Security, according to the administrative accounting. The NIPA data track very closely with the Social Security Administration's accounting data, which is not surprising because the Bureau of Economic Analysis tracks administrative data in compiling annual totals for the NIPA.

Exhibit 3 compares the CPS with the NIPA in terms of aggregate income paid from employer-sponsored retirement plans, including defined-benefit pensions, other annuities, and various individual account plans. In this case, there is no counterpart summary administrative data, but distributions from private tax-qualified plans can be tracked by Form 5500 reports that plans submit to the Internal Revenue Service (IRS) and by insurance industry data on retirement plans offered through insurance companies. Distributions

Exhibit 2

Comparison of Estimated Annual Social Security Benefits from March Income Supplements of the CPS, NIPA, and Social Security Administration, 1980–2010



Note: U.S. dollars in billions.

Source: Authors' tabulations of various years of the CPS March Supplement; the Bureau of Economic Analysis; U.S. Department of Commerce; NIPA; and the Social Security Administration's reporting of combined benefit payments by the Old Age and Survivors Insurance program and the Disability Insurance program as found at www.socialsecurity.gov/OACT/TR/2013/VI_A_cyoper_hist.html#215892.

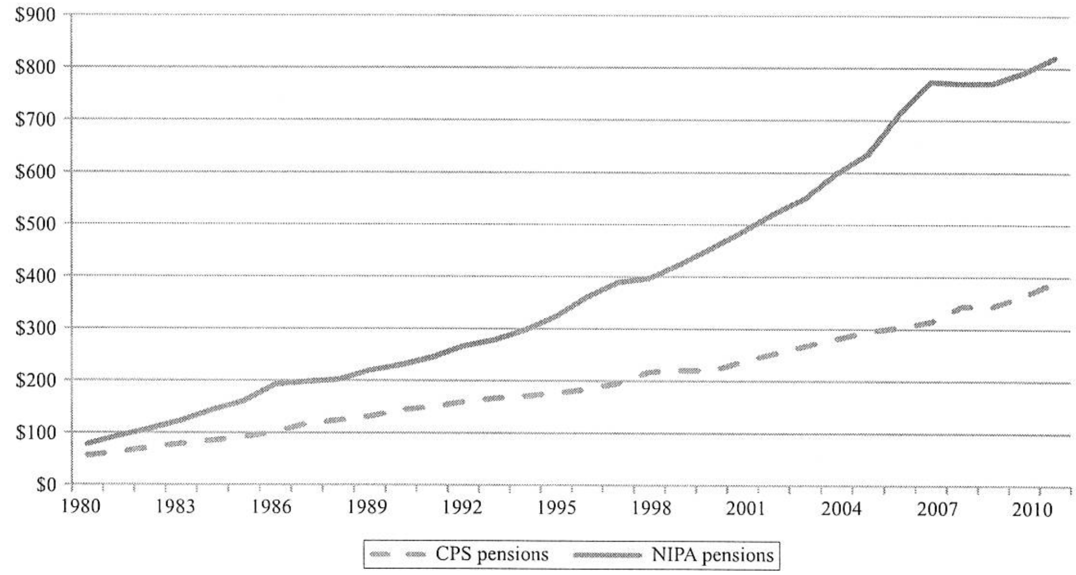
from public plans can be accumulated from the U.S. Census Bureau's Survey of Government Finances. In developing the NIPA, the Bureau of Economic Analysis at the U.S. Department of Commerce pulls data from various sources to estimate annual contributions to employer-sponsored defined-benefit pension plans and defined-contribution arrangements, as well as distributions to participants. In 1990, the NIPA estimates of benefits paid from employer-sponsored retirement plans were 60% greater than all non-Social Security retirement income reported in the CPS, and by 2010, the estimates were twice those from the CPS.

The discrepancy in the estimated income flowing from employer-sponsored retirement plans as well as the increasing differences over recent decades suggest that the CPS is undercounting this income. However, the two streams are not as directly comparable as they might appear. Some of the retirement benefits reported in the NIPA may include preretirement distributions from 401(k) or similar retirement savings accounts. The NIPA estimates are built off of reports from plan sponsors and administrators, and any payment that is not rolled over into an IRA or another tax-qualified plan is considered a benefit payment. Respondents to the CPS questionnaires who are cashing out their own contributions from employer-sponsored or individual account plans may not report such payments as retirement income. Thus, there is an inconsistency in what the NIPA and the CPS are measuring.

Other datasets shed some light on how well the CPS is picking up retirement plan income, but getting historical time series data is either impossible or too cumbersome and costly compared with the bases used in compiling Exhibits 2 and 3. One dataset that is likely less prone to reporting errors than surveys is sample files released by the IRS annually of income tax filers' reported sources and amounts of income. The sample files represent the population of filers for each tax year, and the reported income is likely more precise than survey data because most people refer to accurate

EXHIBIT 3

Comparison of Estimated Annual Pension and Defined Contribution Plan Income from March Income Supplements of the CPS and NIPA, 1980–2010



Note: U.S. dollars in billions.

Source: Authors' tabulations of various years of the March Supplement to the CPS and Bureau of Economic Analysis, U.S. Department of Commerce, and NIPA.

source documents to calculate their tax returns, and they know that errors can result in an audit and potential penalties.

We tabulated various components of reported income from the IRS tax files for 1988, 2000, 2007, and 2008, the latter being the most recent year available, and compared them with CPS March Income Supplement files for the same years. Based on the sampling weights of individuals in the tax files, in 2008 an estimated 23.4 million filing units reported Social Security income, and an estimated 31.6 million filing units reported either pension/annuity income or taxable income from a tax-favored IRA. Based on the CPS, an estimated 32.9 million family units received Social Security, and 17.3 million received some form of pension or other retirement income.

The number of units receiving Social Security was higher in the CPS than in the tax files because the IRS tracks a population subset, while the CPS supposedly represents the entire civilian, non-institutionalized population. The lower CPS number of units reporting pension or other retirement income suggests that the Census survey does not capture a potentially significant portion of retirement income. Once again, however, some income from pensions and retirement savings plans may be preretirement distributions that are not "retirement" income for recipients, despite being reported that way on their tax forms.

Exhibit 4 shows Social Security benefits reported on 1040 files and the CPS for four years: 1988, 2000, 2007, and 2008. Since 1983, Social Security benefits have been taxable if half the benefit value plus other income reaches $25,000 or more for singles ($32,000 or more for married couples filing jointly). Up to 85% of the benefit is included on total incomes above $34,000 for single taxpayers and above $44,000 for couples.[1] These income amounts have been fixed at their nominal level since 1994, and the growth in other income and Social Security benefits due to inflation and productivity levels has subjected an increasing proportion of benefits to taxes.

The administrative data on benefit payments are from the Social Security Administration. These data show that the CPS has consistently reported a larger

Exhibit 4

Reported Levels of Social Security Income on Federal Income Tax Forms and the CPS for Selected Years

	Year	Social Security Benefits Reported (millions)	Administrative Record of Benefit Payments (millions)	Share of Benefits Reported on Tax Filings
	1988	\$83,800	\$217,100	38.6%
	2000	\$183,779	\$407,600	45.1%
1040 filings	2007	\$370,195	\$584,900	63.3%
	2008	\$405,736	\$615,300	65.9%
	1988	\$183,127	\$217,100	84.4%
	2000	\$350,509	\$407,600	86.0%
CPS	2007	\$489,910	\$584,900	83.8%
	2008	\$532,739	\$615,300	86.6%

Source: Authors' tabulations of the sample of Form 1040 filings and the CPS for selected years and Social Security administrative data from Social Security Bulletin Statistical Supplement for various years.

share of total Social Security benefits than federal tax filings. That would be expected even if people were reporting properly, because low-income Social Security recipients are not required to file income tax returns but should report their income on the CPS. Reporting of Social Security benefits appears to be fairly consistent from one year of the CPS to the next. The share of Social Security benefits being reported on annual federal income tax filings increases over time because the dollar thresholds are fixed, while incomes are rising gradually.

Exhibit 5 shows distributions from pension/annuity plans and from IRAs reported on federal income tax forms and on the CPS. Although the CPS showed higher Social Security payouts than the tax files, in this case the tax filings show considerably more income than the CPS. The left two columns of data include reported IRA and pension income for all tax filers and for all family units responding to the CPS. As in the Social Security reporting discussed in Exhibit 4, the number of people receiving retirement income in Exhibit 5 should be greater in the CPS than in the tax filings because some relatively low-income retirees receive pension income, although prevalence rates are higher for those with higher incomes. Some preretirement distributions from employer plans are cash-outs, some of which are not being preserved for retirement and may not be considered income by CPS participants. But research by Munnell, Kopcke, Golub-Sass, and Muldoon [2009] estimated that in 2007, 40% of job changers took cash-outs from their employer-sponsored 401(k) plans, but the cash-outs amounted to only 16% of total assets in the accounts. The rollovers into IRAs of funds from 401(k) and similar accounts are not considered income for tax filing purposes and thus are not included in taxpayers' 1040 filings, so the IRS totals in Exhibit 5 do not reflect rollovers.

Roth plan distributions are not taxable, so IRS data do not reflect retirement income from employer-sponsored and individual Roth accounts. Alternative surveys to the CPS do not generally pick up whether income from these plans is from traditional IRAs and 401(k)s, where contributions are made with pretax dollars and ultimate distributions are taxable, or whether the income is from Roth accounts, where contributions are made with post-tax dollars and distributions in retirement are tax-free. Since 2004, the Federal Reserve Board's Survey of Consumer Finances

Exhibit 5

Reported Pension/Annuity Income and Distributions from IRAs on Federal Income Tax Forms and the CPS for Selected Years

	Total Reported by All Respondents		*Total for Social Security Beneficiaries*	
	IRA Distributions	Pensions/ Annuities	IRA Distributions	Pensions/ Annuities
1988 IRS	\$11,109	\$173,890	\$4,788	\$74,376
1988 CPS	\$706	\$123,443	\$597	\$79,683
CPS/IRS	6.4%	71.0%	12.5%	107.1%
2000 IRS	\$99,380	\$546,114	\$59,358	\$258,764
2000 CPS	\$3,211	\$216,443	\$2,083	\$143,909
CPS/IRS	3.2%	39.6%	3.5%	55.6%
2007 IRS	\$142,750	\$833,570	\$102,700	\$460,500
2007 CPS	\$8,373	\$306,430	\$6,056	\$200,431
CPS/IRS	5.9%	36.8%	5.9%	43.5%
2008 IRS	\$155,270	\$811,701	\$110,920	\$457,311
2008 CPS	\$7,712	\$336,304	\$5,564	\$222,248
CPS/IRS	5.0%	41.4%	5.0%	48.6%

Note: U.S. dollars in millions.

Source: Authors' tabulations of the sample of Form 1040 filings and the CPS for selected years.

has been asking respondents to report the extent to which their IRA balances are Roth accounts. In 2004, 7.4% of IRA balances were reported as Roth-type accumulations, with the percentage climbing to 8.1% in 2007 and to 11.1% in 2010. Thus, the IRS data are missing a non-trivial and growing share of retirement income paid by tax-qualified plans to retirees. This means that the CPS results shown in Exhibit 5 are doing an even poorer job of capturing retirees' tax-qualified retirement income than the exhibit indicates.

Until 1997, IRS tax files had an indicator on the records of individuals claiming an extra exemption for each person in the filing unit 65 or older. That allowed an analysis of the same subset of the population, as included in Exhibit 1 from the Social Security reports on income of the population ages 65 and older. Where one or more individuals in the tax filing unit claimed the 65-and-older exemption in 1988, reported total pension plus IRA income was $89.6 billion in the tax files versus $73.6 billion for the comparable CPS population. After 1997, however, pension reporting appears to have started declining on the CPS compared with the IRS filings.

Of the 1988 totals shown in Exhibit 5, tax file retirement plan income included $4.8 billion in IRA distributions to elderly filers, while the CPS files captured only $597 million of such income. But the combination of pension or annuity income together with IRA distributions from the CPS were nearly identical to the amounts reported on the tax files. An earlier analysis by Schieber [1995] found that, for the 1990 tax year, pension and IRA income was $112 billion according to tax files versus $88 billion estimated from CPS elderly filers. The discrepancy between the pension and retirement savings income reported on the CPS compared with the tax files increased between 1988 and 1990.

Because recent tax files no longer identify taxpayers 65 and older, we focused on those receiving Social Security benefits who thus might be considered retired. The overwhelming majority of Social Security recipients are 62 or older or disabled. In either case, Social Security beneficiaries might also qualify for retirement income from a tax-qualified plan. In Exhibit 5, the IRA and pension income amounts in the two right-hand columns were paid to people who also reported receiving Social Security income. It seems reasonable to assume that people who receive Social Security retirement benefits might also be receiving benefits from their supplemental retirement savings accounts.

But the CPS captures very little of the IRA income being reported on tax filings: 3.5% in 2000 and roughly 5%–6% in 2007 and 2008. The CPS has done a better job of capturing reported pension and annuity income but still comes up short by around half, and the underreporting appears to have worsened considerably in recent years. In aggregate, the CPS for 2008 clearly captured less than half the pension/annuity or IRA income that accrued to family units that were receiving Social Security benefits. Considering that the tax filings do not capture all income paid by employer-sponsored retirement plans and IRAs—because low-income recipients do not have to file tax forms and Roth-type benefits are not taxable—aggregate benefits from these plans almost certainly exceeded the Social Security benefits they received in 2008. This is a far cry from the relative levels of retirement income reported by Social Security, as shown in Exhibit 1.

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The tax data clearly show that many more people are receiving both Social Security benefits and retirement income from employer-sponsored and private retirement accounts—and the income from the latter sources is much greater than the CPS would have us believe. But many of those using the CPS to analyze retirement income also stress the importance of how benefits are distributed across the income spectrum and contend that pension/annuity and IRA income accrues mostly to well-off retirees. To examine segments of the population by income, our analysis splits filing units in both the IRS and CPS files for 2008 into 10 equal groups, called deciles, by income level. Exhibit 6 shows income levels for 2008 tax-filing units and for family units that reported income in the CPS for the same year. Despite lower-income individuals not having to file federal income tax forms, the income deciles for the CPS participants were consistently higher than those for the tax filers. Exhibit 6 also shows income ranges for family units with at least one member receiving Social Security benefits.

In the 2008 federal tax filings, recipients of Social Security had higher incomes at every decile than the total population covered in the CPS. For example, the third decile includes those whose incomes fall between the 30th and 40th percentile of the distribution. Within this third decile, among tax-filing units who received

Exhibit 6

Income Ranges within Each Income Decile of All Tax-Filing Units and for Those Units Reporting Social Security Income from the 2008 Federal Income Tax Files and Comparable Reported Income for 2008 on the CPS

	All Reporting Units Income Levels		*Units Reporting Social Security Income*	
Decile	**From IRS Tax Files**	**CPS Respondents**	**From IRS Tax Files**	**CPS Respondents**
1	Up to $6,767	Up to $9,324	Up to $18,133	Up to $10,663
2	6,768 to 13,749	9,325 to 16,598	18,134 to 25,966	10,664 to 14,357
3	13,750 to 20,550	16,599 to 24,010	25,967 to 32,449	14,358 to 18,617
4	20,551 to 27,888	24,011 to 32,021	32,450 to 39,503	18,618 to 23,777
5	27,889 to 36,370	32,022 to 41,612	39,504 to 47,171	23,778 to 30,014
6	36,371 to 47,141	41,613 to 53,746	47,172 to 56,339	30,015 to 38,179
7	47,142 to 61,355	53,747 to 69,782	56,340 to 68,849	38,180 to 49,504
8	61,356 to 82,008	69,783 to 90,561	68,850 to 88,603	49,505 to 66,857
9	82,009 to 121,311	90,562 to 127,200	88,604 to 130,202	66,858 to 97,000
10	121,312 or more	127,201 or more	130,203 or more	97,001 or more

Source: Authors' tabulations of the sample of Form 1040 filings and the CPS for 2008.

Social Security benefits, incomes ranged from $25,967 to $32,449, while the range for the total population in the CPS was $13,750 to $20,550. Among the CPS units reporting Social Security income, those in the bottom decile had a higher median income than the general population, but among those in the second decile and higher, the general population had higher income levels than Social Security recipients.

In the 2008 IRS tax filings, an estimated 23.4 million units reported receiving Social Security benefits versus 32.9 million in the CPS. To make the data from both sources more comparable, we eliminated the bottom 20% of the income distribution from the CPS, thereby arriving at an estimated 24.5 million units with Social Security income for 2008. This is not to suggest that the income status of those with the lowest incomes is not important from a retirement income security standpoint; our goal was simply to make the two populations as comparable as possible in order to assess their respective reporting of pension/annuity or retirement account income. We acknowledge that low-income Social Security recipients excluded from Exhibit 7 are unlikely to have significant income from pensions or IRAs. The point here, however, is that we are missing much of the retirement income that is available to retirees in the upper 70–80% of the income distribution. If aggregate income levels and the distribution of income are important in setting retirement policy, then we first need to understand the retirement resources available to retirees at various income levels.

While the altered CPS file might not map directly to 2008 tax filers, it must be more comparable than the full CPS population because many low-income units do not file federal tax forms. Exhibit 7 shows the median reported Social Security benefits in each income decile from the 2008 federal tax files and the CPS for the top 80% of all units based on income. Those in the first four deciles of the CPS have somewhat higher median Social Security benefits than the same deciles from the tax files, and the overall distribution is flatter in the CPS than in the tax files.

Almost 30% of Social Security beneficiaries in the bottom income decile on both the IRS and CPS files reported having received some annuity or IRA income in 2008. In the second decile, the prevalence of reported annuity/IRA income among Social Security beneficiaries in the tax files was 1.6 times that reported by the CPS and, at every higher decile, the prevalence of annuity/IRA income in the tax files was considerably higher than that in the CPS.

Moreover, across much of the income distribution, the median annuity or IRA income in the tax files was significantly higher than in the CPS—30%–40% higher in the third through sixth income deciles and nearly 50% higher in the seventh and eighth deciles. In the tax files, the median reported annuity or IRA income in the bottom half of the income distribution was somewhat less than the median Social Security income, and benefits were quite significant among those receiving them. In the second decile of the income distribution, the median annuity/IRA income was 50% of the median Social Security benefit.

Some people who qualify for retirement benefits might not be receiving them in a specific year because they continue to work. For example, workers in 2008 could draw their full Social Security benefits at age 66 while continuing to earn income from employment. Exhibit 8 focuses on Social Security beneficiaries who reported no annuity or IRA income but reported wage, salary, or self-employment income in the tax files and

Exhibit 7

Median Social Security Income for Beneficiaries, Percentage of Filing Units with Social Security Income Reporting Pension or Annuity Income, and Median Pension Income Reported for 2008 from Tax Files and the CPS, Excluding the Lowest 20% of Income Reporters

	Income Reported on 2008 Tax Files			*Income Reported for 2008 on CPS*		
Decile	Median Social Security Income	Percentage with Annuity/IRA	Median Annuity/IRA	Median Social Security Income	Percentage with Annuity/IRA	Median Annuity/IRA
1	$8,940	29.4%	$2,903	$15,413	28.8%	$3,840
2	13,100	59.6%	6,613	16,757	34.4%	5,664
3	14,440	73.4%	10,510	16,800	42.6%	7,392
4	15,690	78.3%	13,440	17,189	48.8%	9,600
5	17,030	81.3%	17,500	17,157	55.6%	12,600
6	18,430	82.5%	20,730	16,692	55.7%	16,032
7	19,130	83.5%	28,030	18,394	53.2%	18,600
8	19,270	83.2%	34,380	16,800	54.2%	23,520
9	21,200	86.7%	46,800	17,656	56.8%	26,400
10	22,860	83.9%	74,760	18,072	53.4%	30,000

Source: Authors' tabulations of the sample of Form 1040 filings and the CPS for 2008.

Exhibit 8

Family Units Reporting Social Security Income in 2008 Who Reported No Annuity or IRA Income and Those Who Reported Earnings and Median Earnings from 2008 Tax Files and the CPS, Excluding the Lowest 20% of Income Reporters

	Income Reporting from 2008 Tax Files			*Income Reporting for 2008 on CPS*		
Decile	Percentage Not Reporting Annuity/IRA Income	Percentage with No Pension/IRA Who Report Earnings	Median Earnings Income of Those with It	Percentage Not Reporting Annuity/IRA Income	Percentage with No Pension/IRA Who Report Earnings	Median Earnings Income of Those with It
1	70.6%	43.2%	$4,128	71.2%	20.3%	$6,260
2	40.4%	56.2%	9,661	65.6%	27.5%	10,000
3	26.6%	64.6%	15,370	57.4%	35.2%	12,000
4	21.7%	75.2%	21,250	51.2%	52.9%	16,940
5	18.7%	76.7%	27,500	44.4%	70.1%	21,684
6	17.5%	79.6%	35,130	44.3%	78.9%	29,000
7	16.5%	77.1%	44,260	46.8%	81.1%	38,000
8	16.8%	77.4%	56,060	45.8%	89.8%	52,000
9	13.3%	74.7%	76,150	43.2%	93.1%	70,900
10	16.1%	64.2%	121,400	46.6%	94.1%	112,000

Source: Authors' tabulations of the sample of Form 1040 filings and the CPS for 2008.

the CPS. The exhibit also shows the median earnings of those who reported receiving such income.

In the 2008 tax files, most filers who reported no pension or IRA income reported earnings, including roughly three-quarters of those in the fourth through tenth income deciles. Relative to the median Social Security benefits reported in Exhibit 7, the earnings are quite significant across most of the income distribution. In the CPS, somewhat smaller percentages who reported no pension or IRA income also reported earned income at the lower income levels, but higher percentages reported earned income in the sixth through tenth deciles.

These data do not identify how many people with substantial earned income but no reported pension/annuity or IRA income had a private retirement benefit but were deferring distributions until they fully retired. Many healthy older people might prefer to work past typical retirement age to build up their retirement savings, especially if they believe they might outlive their life expectancy. In other words, the non-receipt of private retirement benefits may be a demonstration of financial prudence as opposed to a failure of private retirement plans.

READING THE FINE PRINT AND ASKING THE RIGHT QUESTIONS

As we noted earlier, the Current Population Survey serves as the basis for estimates of income sources and amounts for retirees at all income levels. The widespread conclusion drawn from the survey is that the elderly—especially those at lower income levels—depend on Social Security for all or most of their income. For example, Lind, Hill, Hiltonsmith, and Freedman [2013] cite the 2010 Social Security report on income sources of the elderly indicating the following:

> The combination of traditional pensions and defined contribution plans such as 401(k)s and IRAs provide 18 percent of all income for older Americans. Both defined benefit and defined contribution plans are much more important to more affluent elders: They provide 25 percent of all income for older Americans in the second-highest income quintile compared to just 3 percent of income for those in the lowest income quintile.

Statements like these suggest that the cited income measures are comprehensive. But comparing the retirement income of Social Security recipients reported on federal income tax filings with those from the CPS casts the survey data about income levels and sources into doubt. In fact, the underreporting of retirement plan income on the CPS has been understood for some time.

In a critical review of Schieber's [1995] comparison of 1990 pension and IRA reporting from the IRS tax files and the CPS, John Woods [1996] of the Social Security Administration indicated the following:

> Undoubtedly, the biggest problem in estimating pension benefits based on the CPS is its conceptual orientation to measuring income as regular, periodic payments. The questionnaire does not ask about lump-sum payments, which we know from other data sources constitute a large and growing component of payouts from pension plans.

Although Woods conceded that the CPS was missing some income being paid by tax-qualified retirement plans, he developed an analysis that suggested that most of the unaccounted income in the CPS was being paid to people in the upper half of the income distribution and concluded that, "The system of employer-sponsored pensions in the United States ... has been doing a poor job of providing widespread retirement income security to lower wage workers and their families" (Woods [1996]). His conclusion notwithstanding, Woods indicated that the Census Bureau had recently added questions to another of its income surveys, the Survey of Income and Program Participation (SIPP), to elicit information on "lump sum" payments from retirement plans, and that Social Security intended to examine these data in future analyses. He also indicated that the Social Security Administration intended to make recommendations to the Census Bureau for improving its measurement of pension benefits on income surveys as a result of the analysis he had developed with input from the Census Bureau, the IRS, and others.

Since Woods acknowledged that the CPS was not capturing income from sources that were not making "regular, periodic payments," the Social Security Administration has published at least seven subsequent reports on the sources and income of the elderly. In the most recent report in this series, "Income of the Population 55 or Older, 2010," Trenkamp [2012] pointed to the reason why the retirement plan income discrepancies between federal tax filings and the CPS persist. In the 2010 report, Trenkamp wrote:

> We do not publish statistics differentiating between DB and DC pensions because a significant portion of payments from DC plans are not collected in the Current Population Survey. The Census Bureau only includes "regular payments" from retirement, survivor and disability income in its definition of total money income. Many people do not choose to annuitize their pension accounts and instead make withdrawals from their pension accounts on their own. These withdrawals are not part of total money income, and data are not collected on withdrawals from pension accounts in the March Supplement to the Current Population Survey.

Although many analyses of the income status of the elderly and retirees rely on the CPS or Social Security's own publications, the shortcomings of the CPS in capturing retirement income have been documented elsewhere. Sabelhaus and Schrass [2009] compared 2007 withdrawals from IRAs as reported in federal income tax filings with the CPS, the Survey of Consumer Finances sponsored by the Federal Reserve Board, and the Investment Company Institute's Tracking/IRA survey.

Using a published IRS analysis, Sabelhaus and Schrass [2009] estimated that of 2006 taxable IRA distributions of $124.7 billion, $105.7 billion went to filing units with a primary taxpayer age 55 or older. The comparable estimates of distributions were $6.4 billion in the CPS, $95.2 billion in the Survey of Consumer Finances, and $71.6 billion by the Investment Company Institute. Our own tabulations of the Survey of Consumer Finances suggest that it is picking up at least twice as much pension/annuity and IRA income as the CPS and that the IRA distributions reported on the Federal Reserve Board's Survey of Consumer Finances are nearly equivalent to the amounts reported on the tax files.

Czajka and Denmead [2011] compared the CPS income supplement with two other regular surveys conducted by the Census Bureau. The American Community Survey (ACS) is an annual survey,[2] and the SIPP includes households that are interviewed on a recurring basis over 30 to 48 months.[3] Each survey uses somewhat different sample frames and question formats to gather information on income sources and levels for representative samples of the U.S. population.

Compared with the SIPP, the CPS comes up particularly short on retirement income from 401(k) and 403(b) types of plans and from all IRAs, including traditional IRAs, Roth IRAs, simplified employee pensions (SEPs), and savings incentive match plans for employees (SIMPLE) IRAs established through employers, according to Czajka and Denmead. The ACS also comes up short relative to the SIPP but generates somewhat higher income estimates than the CPS from these plans. Czajka and Denmead found that 46.6% more family units or unrelated individuals reported receiving some retirement income other than Social Security or Supplementary Security Income on the SIPP than on the CPS and that the aggregate amounts reported on the SIPP were 39% greater than those on the CPS.

Czajka and Denmead argued that all three surveys would benefit from revisions to their "income questions to reflect recent shifts in sources of retirement income, especially the increasing importance of IRAs as a source of regular distributions, even if such distributions occur as infrequently as once a year." They maintain that the CPS should consider adopting the approach taken by the Federal Reserve's Survey of Consumer Finances, which asks respondents to identify up to six of their retirement plans or accounts and then answer questions about their balances, regular or periodic payments, and so forth.

Czajka and Denmead's analysis of the three separate Census Bureau income surveys indicates considerable variation in the data being collected from one survey to the next. When the Census Bureau reports its results from these three surveys, however, it does not report the distributions from retirement accounts. For example, as Iams and Purcell [2013] noted, "The SIPP asks about distributions from retirement accounts, but it does not include those distributions in its summary measure of total family income." So, even though the SIPP data collection process and resulting database include information on distributions from retirement savings accounts, that information is missing from the summary reports published by the Census Bureau on the survey results.

Iams and Purcell's assessment of the reporting of income from retirement accounts suggests that whatever efforts the Social Security Administration has made to encourage the Census Bureau to collect this information have been unsuccessful. But they also rationalize that getting reliable estimates of retirement income taken infrequently from retirement-account plans is more difficult than collecting information on annuity benefits paid to retirees. They also suggest that distributions from account-based retirement plans are not treated as income during retirement because, "Employees' contributions to their retirement accounts were part of their gross income in earlier years, and a general rule of accounting states that a dollar of income in one year should not be counted again as income in a later year" (Iams and Purcell [2013]). Applied consistently, this latter rationale would mean that a large portion of Social Security benefits would not be counted as retirement income either, because half the payroll taxes—the workers' share of contributions that entitle them to retirement benefits—are counted as part of workers' income when the benefits are earned.

Iams and Purcell [2013] estimated that if the SIPP results reported distributions from retirement-account plans in total family income, it would raise the median income of survey participants receiving such dispersals by 18%. Writing in the March 2012 *Social Security Bulletin,* Anguelov, Iams, and Purcell concluded:

> The shift toward greater distributions from DC plans and IRAs raises important questions about the accuracy of the CPS measures of the number of households that take such distributions and the proportion of household income derived from such accounts... The major nationally representative surveys of household income must accurately measure annual distributions from retirement accounts in order to provide a complete picture of the economic well-being of the aged and the general U.S. population.

It is clear that analysts in the Social Security Administration unit that regularly publishes "Income of the Population 55 or Older" have been aware of the underreporting of retirement income on the CPS for quite some time. They also have acknowledged that failing to account for the growing share of retirement benefits paid out of individual account plans is distorting the "complete picture" of retirees' economic status.

MAKING A MOLEHILL OUT OF A MOUNTAIN

To understand the ramifications of ignoring the retirement income value of defined-contribution or individual account plans in these analyses, it is important to focus on the relative size of private retirement savings in forms where "many people do not choose to annuitize... and instead make withdrawals from their pension accounts on their own," as Trenkamp [2012] observed. We often think of retirees' individual account plans as holding the savings they have accumulated by participating in some sort of defined-contribution plan during their working years. But many retirees end up with significant personal account balances from both defined-benefit and defined-contribution plans sponsored by their former employers.

The largest share of retirees receiving annuities from employer-sponsored plans are those still covered by defined benefit plans. But many traditional defined-benefit plans have allowed retiring workers to take lump-sum distributions from their pension plans over the past couple of decades. And many other plan sponsors have converted their traditional defined benefit pensions into hybrid forms in recent years. The Pension Benefit Guaranty Corporation (PBGC [2011]) estimated that in 2010, 37.3% of private pension plan participants were in hybrid plans, up from 20.5% in 2001. Hybrid plans tend to offer lump-sum payments to terminating workers, and the available evidence suggests that most terminating or retiring workers take the lump sum rather than an annuity. Even in those traditional defined-benefit plans still standing, at least a quarter of workers have the option of a lump sum at retirement (Bureau of Labor Statistics [2010]), and some plan sponsors have recently allowed retirees already drawing an annuity to cash out the lump-sum value of future benefits.

As measured by assets in the private, tax-qualified retirement system, defined-benefit plans have been rapidly losing ground to defined contribution plans and IRAs. Copeland [2013] estimated that in 2011, rollovers accounted for roughly half the balances in traditional IRAs. But he also estimated that approximately 1.6 million people contributed an average of roughly $3,700 to their IRAs in 2011, while 1.1 million rolled over an average of slightly more than $72,000. With aggregate rollovers reaching nearly 13 times aggregate contributions, we are clearly on a path where most of the money in the IRA system will have started out as benefits in defined-contribution and defined-benefit plans.

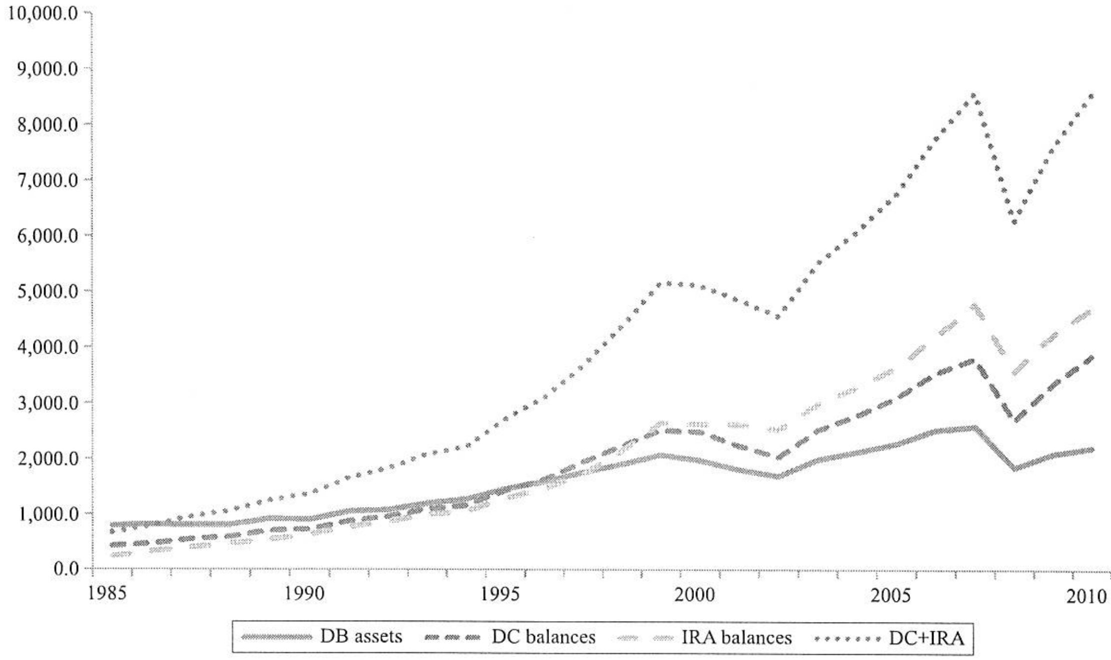
Exhibit 9 shows accumulated asset balances in private defined-benefit, defined-contribution, and IRA accounts separately and then the sum of defined-contribution and IRA balances for 1985 through 2010. In 1985, 54% of all private plan assets were in defined-benefit plans, and most of those assets were in traditional plans that paid out annuities at retirement. By 2010, only 20% of assets were in defined-benefit plans and at least half the plan participants were eligible for lump-sum cash-outs when they terminated employment.

Assets in IRAs, in contrast, grew from 16% to 44% of all private retirement assets between 1985 and 2010. So IRAs have become the single largest component of the private retirement system, and most accumulated balances in employer-sponsored defined-contribution plans and a considerable share of the balances in defined-benefit plans are destined for IRAs when workers retire.

In other words, while the IRA system has become the largest component of the private retirement system

EXHIBIT 9

Assets in Private Tax-Qualified Retirement Plans of Various Types, 1985-2010



Source: Compiled by the authors from Federal Reserve Board, Flow of Funds data from various years, found at www.federalreserve.gov/apps/fof/.

by far, as Trenkamp said, almost none of the income paid from IRAs is ever counted by the Social Security Administration, the Census Bureau, and many policy analysts and advocates. The expanding role of defined-contribution plans and IRAs in providing retirement income is clear and indisputable, but the shift is particularly consequential for the baby boomers now retiring or approaching retirement.

Using data from the Health and Retirement Study sponsored by the National Institute of Aging, Gustman, Steinmeier, and Tabatabai [2010] estimated that 68% of the population ages 51 to 56 in 1992 were either in a defined-benefit pension plan or had earned such a benefit based on prior employment. That percentage had dropped to 60% by 1998 and to 49% by 2004. Among the oldest group in this set, 58% reported having a defined-contribution account in 1992, while 72% of the youngest group reported having one in 2004. The prevalence of defined-contribution accounts is much higher for the baby boomers than it was for earlier generations. But even if we do a better job of counting dollars flowing out of IRAs and other account-based plans in the future, we may be missing some fundamental dynamics of retirement income security decisions being made by retirement account holders.

Anguelov, Iams, and Purcell [2012] found that among SIPP respondents 65 and older who reported having either an IRA or a 401(k) account, withdrawals were strongly skewed by age. In 2006, only 22% of 65- to 69-year-old account holders took distributions compared with 72% of those 70 or older. Poterba, Venti, and Wise [2012] used the SIPP database to analyze the utilization of retirement accounts by retired households and found consistent results over an extended number of years. Between 1997 and 2010, around 20% of households with a household member 60 to 69 years old took a distribution from their personal retirement account. Among households with a member 72 to 85 years old, the distribution rate jumped to around 70% per year over the period. The one exception was 2009, when the rules requiring individual account holders to take mandatory distributions after age 70½ were suspended for a year, and the distribution rate for 72- to 85-year-olds dropped to around 56%.

The apparent failure of employer-sponsored and private savings plans to deliver retirement income to a broad cross-section of the retiree population is often cited as a reason to curtail the tax preferences accorded these plans and to switch to a tax credit system. For example, Michael Lind and his colleagues at the New America Foundation are proposing to essentially dismantle the private retirement saving system, replacing it with a system of tax credits heavily skewed to lower-earning workers. Their rationale is that the private retirement system largely ignores the bottom 60% of earners (Lind et al. [2013]). The same rationale served as the basis for recommendations to enhance or expand Social Security benefits by Virginia Reno, the vice president for income security at the National Academy of Social Insurance, which she presented to the Social Security Subcommittee of the House Ways and Means Committee (Reno [2010]).

CONCLUSION

Concerns about the accuracy of self-reports of sources and levels of retirement income on surveys that most people have never heard of might seem like some medieval theological debate over how many angels can fit on the head of a pin. But ignoring an ever-growing component of retirees' private retirement savings and the income it generates distorts the perceived role that various parts of the retirement system play in providing income security to the elderly. The underreporting results in an inaccurate picture of retirees' economic status and affects policy analysts' and policymakers' perspectives on potential solutions to the challenges posed by an aging population, an underfunded retirement system, and existing claims on workers that already limit their ability to improve their standard of living.

There are legitimate reasons to believe that some workers are not adequately preparing for retirement and that some retirees have inadequate resources to meet their economic needs, and the shift from defined-benefit to defined-contribution plans is widely considered to have made retirement more financially precarious for workers and retirees. It is impossible, however, to clearly sort out who is doing well and who is doing poorly under the current arrangements if official government reports on the income status of retirees ignore hundreds of billions of dollars of their income.

For 2008, distributions from pensions, annuities, and IRAs paid to taxpayers who reported also receiving Social Security benefits were vastly higher than the comparable amounts reported on the Consumer Population Survey: \$568.2 billion versus \$227.8 billion—a difference of more than \$340 billion (Exhibit 5). Moreover, some retirement benefits paid to those with low incomes are not reported on tax filings, suggesting that as little as one-third of retirement benefits supplementing Social Security are reflected in the income sources and levels of the elderly used to evaluate current policies.

Some surveys do a better job than the CPS of capturing the retirement benefits paid out by tax-favored retirement plans today. Those other surveys, however, are generally based on smaller, less-representative samples of the U.S. non-institutionalized population than used in the CPS, thus limiting their use. The tax filing information we used to document the poor job being done by the CPS in measuring retiree income cannot be used for the distributional analyses that are clearly essential in evaluating the public policies that govern retirement income security. And even the IRS data on income distributed from tax-qualified plans provide an incomplete picture of retirement income being delivered to tax filers because of its failure to capture Roth IRA and 401(k) plan payouts as retirement income, a problem that will grow larger over time. The underrepresentation of low-income individuals and couples in the tax administration system makes it impossible to gather the demographic and other information required for such analyses.

A survey with the large sampling frame used in developing the CPS is important for the kinds of analyses that are essential to understanding how our retirement system is working and evolving. The future of U.S. retirement policy is too important to continue relying on inaccurate measures of retirement income that ignore individual accounts, the largest and fastest-growing component of the system. If the U.S. Census Bureau is unwilling to modify its process of collecting retirement plan income, including income from individual accounts, to provide more accurate estimates of retirees' income sources, then the Social Security Administration should use alternative surveys, such as the Health and Retirement Study or the Survey of Consumer Finances.

If the Social Security Administration continues to use the CPS in its current form because its large sample allows detailed analysis of various subsections of the population, it should include strongly worded caveats in bold type on any statistical presentation material that warns of misleading pension income levels for retirees. Otherwise, policymakers, analysts, and the public will continue to be deceived regarding how large segments of the elderly population are faring and how to ensure that today's workers are on a solid path to a financially secure retirement.

ENDNOTES

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[1]Since 1993, there have been two calculation methods for married couples filing jointly: one for couples with incomes between $32,000 and $44,000 and another for those with incomes of $44,000 or higher. In the former case, Social Security benefits included in income are the lesser of one-half the benefit or one-half of total income over $32,000. For the latter, it is the lesser of 85% of the benefit or $6,000 plus 85% of total income over $44,000. For singles, the comparable limits are $25,000 and $34,000.

[2]The American Community Survey is an ongoing survey conducted by the U.S. Census Bureau that is designed to provide reliable and timely demographic, housing, social, and economic data annually. Private and government planners use the survey to assess the adequacy of existing infrastructure or consider new development. Policymakers use it to assess the needs of communities and the effectiveness of existing programs. Sampling is done at the housing unit level, and residents in more than 2 million units across the country were interviewed in 2011.

[3]The Survey of Income and Program Participation is a Census Bureau survey that follows sample "panels" of households over periods ranging from 2.5 to 4 years where residents in sample households are interviewed periodically. The sample sizes range from 14,000 to 36,700 households. A panel started in 2008 is now underway, and households are scheduled to complete their final interviews in December 2013.

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